

# The Changing Geography of Finance and Regulation in Europe

European University Institute  
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# A FinTech Security Breach

- The Subject
- The Event
- The Response
- The Aftermath
- The Lessons

# What is Bitfinex?

- Platform for spot trading of digital tokens
- Peer-to-peer lending
- Deepest order book
- Leading liquidity provider
- Facilities for post-trade clearance and settlement
- Leading source for price discovery

# What is Bitfinex?

- On exchange weighted basis, Bitfinex has historically made up anywhere from 25% to >50% of the USD-BTC market

# What Happened?

- Early in the morning on August 2, 2016, hacker(s) breached the exchange's security systems
- 2072 unauthorized transactions were broadcast on the Bitcoin network
- ~119,755 BTC involved (~\$72M at then-current rate of exchange)

# Technical Response

- Shut down exchange
- Technical investigation started; immediately addressed all possible attack vectors
- August 2nd: Hired blockchain investigator to begin investigations
- Status: ongoing
- Reopened one week post-security breach

# Legal

- Report to & liaise with law enforcement
- Respond to regulatory inquiries
- Consultations with external counsel
- (Inevitable) litigation strategy
- Option assessment

# Recovery Plan

- Issue BFX tokens to all affected, each token representing one dollar of losses
- Trading facility on Bitfinex
- Redemptions through profits
- Conversions of BFX tokens to shares at 1:1
- Recovery Right Tokens (RRTs)
- New money?



# How Did It Go?

- BFX tokens started trading at <\$0.20; gradually went up to almost \$1
- Monthly redemptions starting September 1, 2016
- Last token redeemed at the beginning of April 2017
- >52M BFX tokens converted to shares of iFinex at 1:1

# What Have We Learned?

1. Opportunities for innovation to round out & supplement legal options
2. Willingness to be creative
3. Need an ethical team
4. Need a viable business model & strategy